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Corporate social capital: Results of empirical research in a financial institution

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Abstract

The aim of this paper is to present results from empirical research on social networks, conducted in a financial institution in Poland. The topic is approached within a corporate social capital framework. Corporate social capital is defined as networks of social relations existing within a corporation, by which a company has access and a possibility to activate material and virtual resources. This concept is divided into two types: bonding social capital that affects performance by influencing employees' motivation and engagement and bridging social capital that affects performance through advantages of access to valuable information and support of influential individuals. The first is conceptualised as residing in relations between team members, integrated by strong social group norms and group identification. The second is assumed to deal with relations between employees from different teams, as connected by breaching groups' borders and building bridges over structural holes.

The aim of the research is to investigate the influence of bonding and bridging social capital on employees' and teams' performance, moderated by type of the tasks. The research includes both quantitative methods (based on surveys) and qualitative methods (based on interviews and observations). The quantitative part was to test the theoretical propositions, the qualitative part was to prepare measuring tools, get to know the context and interpret the results.

The main findings of the research support some of the propositions: bonding social capital is found to be of value especially in the case of operational tasks and there is also some evidence that different aspects of social capital interact while influencing performance. What is more, the research provided a profound study of bonding social capital, both in terms of its advantages and disadvantages. In opposition to the conception before the research, both relations in the team and outside the team in the particular company under the study were finally assessed as of bonding character and bridging social capital was not identified within the research context.

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Keywords: Social capital; bridging; bonding.

1. Theoretical concept

The research approach in this study is based on the framework of corporate social capital, which is defined as:

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social relations' networks (together with social norms that were created in those networks) existing within a corporation, by which a company has access and a possibility to activate material and virtual resources (such as information, influence, help, emotional support, engagement and motivation).

This definition is influenced by approaches perceiving social capital as “resources embedded in social networks”, (e.g. Lin, 2001; Bourdieu 1986; Nahapiet & Ghoshal, 1998; Leana & Van Buren, 1999; Gargiulo & Benassi, 2000; Oh, Labianca & Chung, 2006). The focus of the definition above is operationally placed on social relations' networks, which, within borders of a corporation, are easier to measure than resources able to be accessed and activated through those networks. The corporate social capital perspective proposed is about perceiving advantages of social capital embedded in relations between individual employees from the point of view of a corporation, those advantages are achieved through influence of social capital on employees' performance.

Following the distinction existing in social capital literature, especially Lin's (2001) expressive and instrumental motivation to mobilize social capital, connected with “homophilious” and “heterophilious” relations, Adler & Kwon's (2002) internal and external social capital, Burt's (2005) closure and brokerage, Oh, Labianca & Chung's (2006) closure and bridging social capital and Putnam's (2000) bonding and bridging social capital, the concept of social capital is divided into two types: bonding and bridging. In the research approach taken, bonding social capital is investigated within the team, embodied as close relations within the group, integrated through strong social group norms and group identification. This type of social capital may influence the performance as it helps to cooperate, share knowledge and communicate, increases employees' satisfaction and decreases opportunism and employees' turnover. Bridging social capital, in the context of the research, is examined in terms of relationships between employees from different teams, enabling the breaching of groups' borders and building bridges over structural holes. This may impact on performance by creating knowledge in the whole organization, as well as benefiting innovation and information flow.

The literature suggests that both types of social capital may enhance employees' performance but both bonding and bridging have their drawbacks. For example Lazega (1999) states the positive impact of closed, dense networks on attorneys' performance while Gargiulo & Benassi (1999) show that networks rich in structural holes enhance managers' performance. Very often, bonding social capital is perceived to have a “dark side”; from the organizational point of view it may threaten flexibility and innovation by reinforcing the status quo (Burt, 2005). At the same time, bridging social capital does not always provide employees with motivation to use their contacts outside the group for the team and company benefits (Newell, Tansley & Huang, 2004).

Therefore it is worth looking at the context that decides which type of the social capital is needed. In this research, attention was focused on type of the tasks as a possible moderator between social capital and employee's performance. Tasks were divided into operational (routine), which are repetitive and procedure based, and developmental (innovative), which involve creating new and developing existing solutions. It may be expected that operational tasks benefit from bonding and developmental tasks benefit from bridging social capital. This distinction is similar to that of Hansen, Podolny, Pfeffer (2000), who distinguish between exploitative (using existing knowledge) and explorative tasks (demanding developing new knowledge).

The other challenge identified was an investigation into possible interaction between the two types of social capital. Such an approach is quite rare in the literature and it follows Oh, Labianca & Chung (2006), who show that optimal configuration for group effectiveness is “moderate closure” together with “diverse bridging ties”, as well as Burt (2005), who proposes that “performance is highest for closure within group combined with brokerage beyond the group”.

The following are proposed, with benefits from social capital perceived as increased employees' performance:

Proposition 1: The more tasks are operational, the more beneficial is bonding social capital. The more tasks are developmental, the less beneficial is bonding social capital.

Proposition 2: The more tasks are developmental, the more beneficial is bridging social capital. The more tasks are operational, the less beneficial is bridging social capital.

Proposition 3: The higher level of bridging, the more beneficial is bonding. The higher level of bonding, the more beneficial is bridging.

The propositions above are complementary and assume both social capital and type of the task variables as continuous. Put together, they may mean different outcomes, based on the strength of each effect. However, based

on the literature, it is possible to propose what effects should have different combinations of bonding and bridging, depending on type of the task, which is shown in the figure below. This model illustrates how it is possible to clarify seemingly contradicting results of social capital researches, indicating possibility of both positive and negative influence of different types of social capital on effectiveness.

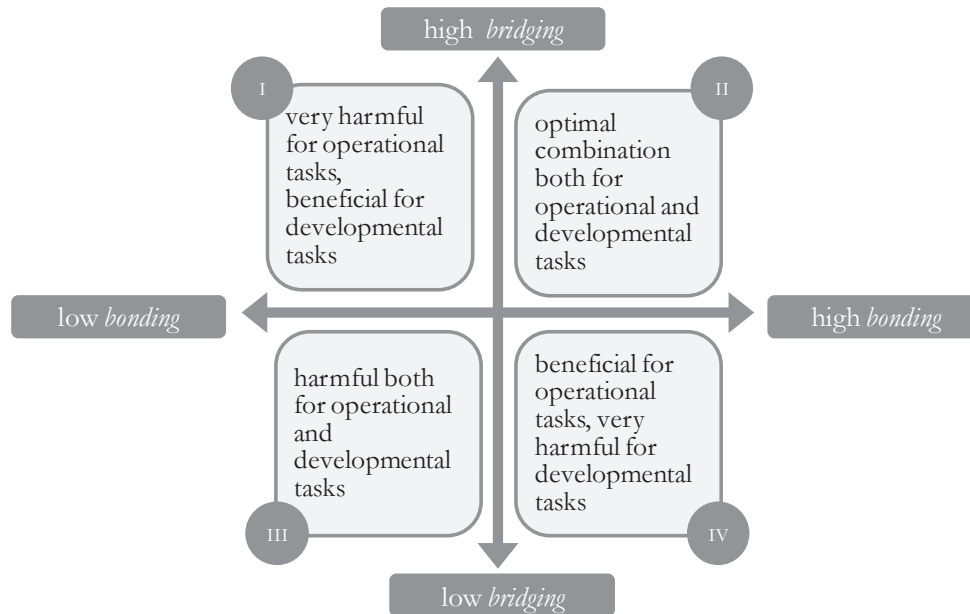


Figure 1: Influence of different bonding and bridging social capital's combinations on employees' performance

For all tasks, bonding and bridging social capital mutually reinforce their positive influence on employees' performance, therefore combination of high bonding and high bridging is optimal both for operational and developmental tasks (part II of the figure), which is in line with Oh, Labianca & Chung (2006) and Burt (2005). For tasks requiring bonding, bridging helps to overcome drawbacks of bonding – relations getting “sticky” and group stagnation; it secures that group is not “too closed”. For tasks requiring bridging, bonding ensures that there is motivation to use bridging for the group objectives.

In case of the operational tasks, when bonding is lacking, bridging additionally diverts employees from their team, it decreases team identification, which is already too small for the tasks to be performed. A good illustration of this mechanism is given by Burt (2005, p. 156), when he cites a manager who said “... do not my people even think of alternatives,” and Hansen, Podolny, Pfeffer (2000) who show that many diversified relations outside the team are a liability for exploitative tasks, which are based on knowledge already present in the team. Therefore a combination of low bonding and high bridging (part I) is worse for operational tasks than a combination of low bonding and low bridging (part III).

In case of developmental tasks, when bridging is lacking, there are problems with access to information and help outside the group, in that case bonding is harmful as it hampers innovations and “going out of the team” which is especially important for the tasks to be performed. This mechanism can be found in Gargiulo & Benassi (2000), who show that cohesive, dense networks harm flexibility and constrain managers in the situation, when tasks change; as well as is Leana & Van Buren (1999), who observe that bonding may decrease innovation and hamper changes. Therefore a combination of low bridging and high bonding (part IV) is worse for developmental tasks than a combination of low bonding and low bridging (part III).

2. Research methodology

The main research was a case study conducted in a Polish financial institution. The questionnaire used in the company was constructed following semi-structured interviews with employees of different companies in Poland and subsequently it was piloted both outside and within the company. Among 188 employees of the company, it

was possible to identify 27 teams of size from 3 to 12 people, involving together 164 employees, who were the target group of the research. I met with all teams except one and during these meetings, in my presence, members of each of the teams, together with the team leader, completed the questionnaires. The respond rate was 96%. Additionally, I have interviewed all department directors, who also filled in the questionnaires in my presence. The data obtained through questionnaires were supplemented by information gathered through interviews with an Executive Board Member and the Head of the Human Resource Department, as well as informal conversations with team members and team leaders and observations.

The research was conducted in a way that preserved anonymity of respondents and teams. Questionnaires were not signed but encoded. In distinction to the roster technique, there was no list of employees' names attached to the questionnaire and respondents were giving numbers and symbols in place of the alters' names. As a researcher, I had access to the company structure in a coded version, showing only teams' symbols, employees' positions and number of employees in each team. In case of relations within their team, respondents were giving their team code and the number of employees from the team, with whom they had a relation specified in each of the questions asked. In case of relations outside their team, respondents completed a coded table in the questionnaire, using the decoded company structure provided to them directly from the Human Resources Department. In each of the relations' categories specified, they were putting in the table the number of employees from a given team, with whom they have this specific relation. In case of each employees, the respondents had to decide which category described the best the relation held, or to exclude an employee where they were not in contact.

As a result, identification of full network data was possible only on the level of teams, after aggregating individual data of team members, as well as in case of managers, as their position was distinguished in the coded structure. On the individual level, except for managers, full network data was not obtainable, but there was possibility to count out-degrees, as well as number of different subgroups contacted and number of managers contacted, what enabled to assess relations' diversity.

On the bases of data from the questionnaires, both deductive indicators (e. g. density of the relations within the team and out-degree centrality for relations outside the team) and inductive indicators (with use of Item Response Theory and factor analysis) of social capital were composed. The most important indicator of bonding social capital was the “**relations in the team**” aggregated indicator, which was constructed on the basis of questions regarding different aspects of relations within the team, like trust and understanding each-other relations. For bridging social capital, which was supposed to be found in different aspects of relations outside the team, the most important separate factors identified were: “**informal conversation ties**” and “**socialising ties**”. The **informal conversation ties** indicator shows different aspects of acquaintance relations, like percent out-degree and percent of managers reached. The **socialising ties** indicator shows different aspects of friendship relations, like percent out-degree, percent of managers reached, percent of different subgroups reached and percent of subgroups with access to as the only one from the respondent team.

Additionally, based on the data from the questionnaires, with use of Item Response Theory, an indicator of **type of task** was constructed, which showed to what extent the individual task is developmental (including creating new solutions and upgrading existing ones) and to what extent is operational (based on procedures). For the purposes of the analysis on the team level, all the teams were assessed by Executive Board Member either as more developmental, or as more operational.

The **employees' performance** measure was based on the company's annual evaluation system, which was undertaken by the company after the research had taken place. These evaluations were prepared by direct supervisors according to company standards. They enabled to divide employees into 5 categories indicating level of their performance. Individual performance data were obtained from the company for 137 employees, who gave their approval. **Team performance** was evaluated by one Executive Team Member, during my interview conducted with him, according to criteria from the literature (Sparrowe, Wayne & Kraimer, 2001 and Oh, Chung & Labianca, 2004).

The analyses were carried both on the team and individual level. On the team level, with data from 26 groups, analysis mostly comprised network visualisation and descriptive analysis. On the individual level, with a final number of 124 observations to use, it was possible to perform an analysis that controlled for different context variables like position in the company, level tenure, work experience and several job characteristics; as well as testing the statistical significance of the interactions from the propositions 1-3. Interactions were included in the model as products of social capital and type of tasks indicators and products of different type's social capital indicators. As dependant variable, employee's performance, was ordinal, ordinal logistic regression (proportional odds model) was used. Hierarchical data structure was taken into account, recognizing that employees are

embedded in teams (cluster option for ordinal logistic regression, available in STATA, was used). There was also an attempt to build a multilevel model, but this model, for the number of observations and variables used, was rejected for a more parsimonious ordinal logistic regression model.

3. Results and implications

The observations on the group level supported propositions 1 and 3. Good relations in the team correlated with high team performance, especially in case of operational tasks. The combination of good relations in the team and good relations outside the team was associated with the highest performance, no matter which tasks were performed. What is more, in line with theoretical model proposed in Figure 1, among those teams undertaking operational tasks, those having poor relations inside the team combined with good relations outside the team performed the worst.

Similar results were obtained from the individual-level statistical analysis, where employee's individual performance was the dependent variable. Proposition 1 was supported; bonding social capital turned out to be beneficial for both types of tasks, but this effect was stronger for operational tasks. This result remained unchanged when alternative indicators of bonding social capital were tried. Proposition 3 was weakly supported; positive influence of good relations in the team on the employee's performance was strongest when they were followed by good relations outside the team. Proposition 2 was not supported, there was no significant interaction between the type of task and the indicators of relations outside the team. Despite trying alternative indicators (even restricting the analysis to the group of managers), within the company bridging social capital was not found to provide benefits for developmental tasks.

There are a few possible explanations of the results regarding relations outside the team. First of all, within the whole company there was a dense network of social relations between employees from different teams, so brokerage was not possible because structural holes were lacking. Secondly, the costs of maintaining many ties might have been higher than the benefits (Hansen, Podolny & Pfeffer, 2000). What is more, bridging opportunities might have been located outside the firm, which was outside the research scope. There is also a possibility that the tasks identified as developmental in the context of the company, in fact did not need access to diverse sources of knowledge provided by bridging social capital. Those tasks were mainly developing new and upgrading existing IT systems and might have been based on human capital – experience and skills of employees.

Interestingly, informal conversation ties outside the team turned out to be negatively related to employees' performance. Additionally, the combination of numerous socialising ties outside the team with numerous informal conversation ties outside the team was found to be especially harmful. The possible explanation is that a lot of informal ties outside the team may distract from work, as well as harm performance through gossip and reinforcement of negative attitudes at work. In the company, there was a dense mixture of "love and hate" relations one next to another, which may be the result of Burt's (2005) "echo" mechanism, responsible for amplifying relations to extremes of trust and distrust. "Echo" may be especially harmful, when closed, dense relations are followed by ambiguous policies and rules, which gives place for guesses, gossips and strengthening each other opinions. Another explanation is from Flache and Macy (1996), who argue that cohesive relations may undermine cooperation rather than sustain it when individuals care more for bilateral relations than group goals.

A further interesting finding is a positive relation between socialising ties outside the team and performance, while controlling for informal conversation ties. We might have expected the opposite, as weaker relations are supposed to be more effective in providing access to diverse sources of knowledge (Granovetter 1973). The explanation may be that while informal conversation ties were common and available for lots of employees, stronger and more scarce socialising ties became a possible source of advantage. What is more, the finding that stronger, socialising ties turned out to be more beneficial for performance than weaker, informal conversation ties, is in accordance with Adler & Kwon's (2002) proposition, that strong ties are more significant than weak in the case of gaining confidential information and tacit knowledge, and with Moran (2005), who showed positive influence of relations' closeness and trust on innovations performed by managers through access to intangible resources.

In opposition to theoretical assumptions taken, both relations within and outside the team in this specific company was found to be of bonding character, therefore the research turned out to be a profound case study of bonding social capital. According to expectations, this type of the social capital especially benefits repetitive, procedure based tasks. For the tasks performed in the company, which were in general strongly procedure-based, the most important were relations within the team, including the relations with direct supervisor. Numerous informal conversation relations outside the team turned out to be harmful, especially when followed by weaker

relations within the team. In the company, dark side of excess bonding was not connected with strength of relations, as curvilinear relations were not found and stronger socialising ties were better than weaker informal conversation ties. It was more about the amount of relations cultivated, especially if they were located in wrong places (outside the team while lacking within the team). That is why the coexistence of different ties outside the team, socialising and informal conversation, was especially harmful.

Examples of both positive and harmful influence of bonding relations were identified within the company. Company culture was based on solidarity, cooperation and attachment, which supported employees' safety, stabilization, ethos of honest work and low turnover. At the same time, the same type of social capital resulted in reinforcing status quo, reluctance for changes, fear of taking initiative, passiveness and high social benefits expectations. Although the company was supporting creating informal relations, they did not provide, as the company expected, good communication and knowledge sharing. Instead it seems that those dense informal relations amplified existing stereotypes and divisions, causing conflicts and mutual blaming between some of the teams.

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